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BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION

DOCKET CONTROL

2012 JUL 6 PM 12 01

COMMISSIONERS

GARY PIERCE - CHAIRMAN
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY
FOR APPROVAL OF ITS 2011-2012 ENERGY
EFFICIENCY IMPLEMENTATION PLAN.

DOCKET NO. E-01933A-11-0055

**STAFF'S NOTICE OF FILING
REBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Rebuttal Testimony of
Julie McNeely-Kirwan, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 6th day of July, 2012.

Charles H. Hains
Robin R. Mitchell
Scott Hesla
Brain E. Smith
Attorneys, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of
the foregoing filed this 6th day of
July, 2012, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission

DOCKETED

JUL - 6 2012

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|-------------|-----|

1 Copy of the foregoing mailed and via
2 email this 6th day of July, 2012, to:

3 Michael W. Patten
4 ROSHKA DeWULF & PATTEN
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

5 Phillip Dion
6 TUCSON ELECTRIC POWER CO.
One South Church Avenue, Suite 200
Tucson, Arizona 85701

7 C. Webb Crockett
8 Patrick J. Black
9 FENNEMORE CRAIG, PC
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

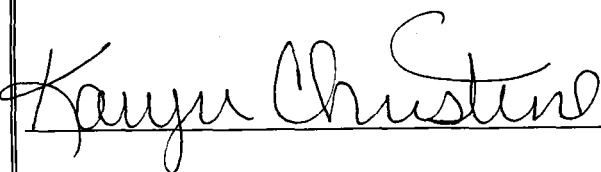
10 Daniel W. Pozefsky
11 Chief Counsel
Residential Utility Consumer Office
12 1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

13 Timothy Hogan
14 Arizona Center for Law in the Public Interest
202 East McDowell Road, Suite 153
15 Phoenix, Arizona 85004

16 David Berry
Western Resource Advocates
17 P.O. Box 1064
Scottsdale, Arizona 85252-1064

18 Bradley S. Carroll
19 Tucson Electric Power Co.
88 East Broadway Blvd., MS HQE910
20 Tucson, Arizona 85702

21 Larry V. Robertson, Jr.
Attorney at Law
22 P.O. Box 1448
Tubac, Arizona 85646

23
24
25 
26
27
28

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

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IN THE MATTER OF THE APPLICATION OF)
TUCSON ELECTRIC POWER COMPANY FOR)
APPROVAL OF ITS 2012-2013 ENERGY)
EFFICIENCY IMPLEMENTATION PLAN)
_____)

DOCKET NO. E-01933A-11-0055

REBUTTAL

TESTIMONY

OF

JULIE MCNEELY-KIRWAN

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 6, 2012

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**EXECUTIVE SUMMARY
TUCSON ELECTRIC POWER COMPANY
DOCKET NO. E-01933A-11-0055**

Tucson Electric Power Company ("TEP" or "Company") is seeking approval of its 2012-2013 EE Implementation Plan.

In its Rebuttal Testimony Staff rebuts certain issues from the Direct Testimony in this matter and expands on its Direct Testimony.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Julie McNeely-Kirwan. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Have you filed testimony previously in this matter?

A. Yes. Direct Testimony from me was filed on June 15th of this year.

LOST FIXED COST RECOVERY

Q. In his Direct Testimony (page 2), David G. Hutchens expresses concern regarding Tucson Electric Power Company's ("TEP's") ability to recover lost fixed cost revenues. Does Staff wish to respond to Mr. Hutchens' concerns?

A. Yes. As a response to Mr. Hutchens' concerns about recovery of lost fixed cost revenues, Staff wishes to clarify and expand on its recommendations regarding the deferral account option, as discussed in Staff's Direct Testimony.

Q. Does Staff's recommendation regarding the lost fixed cost revenue deferral option apply to Staff's proposed Alternatives 1 and 2, as well as to Staff's Recommendation?

A. Yes. Staff recommends that if the Commission approves Staff's Recommendation, or one of Staff's two alternatives, and also elects to deal with lost fixed cost revenues in the current docket, TEP should be authorized to defer unrecovered fixed costs as described in Staff's Direct Testimony. The methodology used to defer unrecovered fixed costs associated with Staff's Recommendation or either alternative should be approved by Staff.

1 Staff notes that the amount deferred with respect to Alternative 2 should be comparatively
2 minimal.

3
4 **Q. In its direct testimony, TEP discusses an alternative solution for financing the cost of**
5 **complying with the Energy Efficiency ("EE") standard. Please describe it.**

6 A. On page 13 of his testimony, David G. Hutchens states that TEP plans to propose an
7 alternative Demand-side Management/Energy Efficiency ("DSM/EE") financing solution
8 in its rate case. Mr. Hutchens testifies that, under TEP's proposal, TEP would "invest its
9 capital in cost-effective DSM/EE programs, recovering its costs through the DSMS
10 [Demand-side Management Surcharge] and eliminating the PI [Performance Incentive]."

11
12 **Q. What is Staff's response to the proposed alternative for financing the cost of**
13 **complying with the EE standard?**

14 A. Although more details would be required, Staff is interested in TEP's proposal to invest its
15 capital in cost-effective DSM/EE programs. Staff is contemplating a rate case proposal
16 that evaluates recovery for investment in EE more like recovery for investment in other
17 resources.

18

**DSM SURCHARGE MECHANISM AND PERFORMANCE INCENTIVE
METHODOLOGY**

Q. In her Direct Testimony, Denise Smith describes a “bridge” implementation plan that includes changes to the DSM Surcharge mechanism and the Performance Incentive methodology (pages 2, 10, 13). Please respond.

A. Staff recommends that changes to the DSM Surcharge mechanism and to the Performance Incentive methodology take place within TEP’s recently filed rate case docket, not this docket.

Q. What type of changes does TEP propose for the DSM surcharge mechanism and to the Performance Incentive methodology?

A. TEP proposes that the DSM Surcharge for non-residential customers be based on a percentage of the bill charges, minus taxes and other governmental assessments. TEP proposes that the Performance Incentive methodology be based on net benefits, with floor and ceiling payments, a tiered payment structure, and payments based on other performance metrics (net benefit per dollar spent, weatherization workshops, community outreach, contractor training and an increase in participation for the Weatherization program).

Q. Does Staff have a response to TEP’s proposed changes to the DSM Surcharge mechanism and Performance Incentive methodology?

A. Yes. Staff believes that such changes should take place inside the rate case, because changes to the DSM Surcharge mechanism and to the methodology for calculating the Performance Incentive are complex and can produce a wide range of consequences for ratepayers. For example, such changes may impact not only how much ratepayers pay overall, but may also shift the impact among the rate classes (as would be the case with

1 the percentage-of-bill non-residential recovery method) or affect the level and type of
2 benefits received by ratepayers in exchange for their investment in EE (as would be the
3 case with the proposed changes to the Performance Incentive).

4
5 Staff believes that, as compared to more narrowly focused dockets, rate cases provide
6 ratepayers, including the different rate classes, more opportunity to intervene or file
7 comments regarding any changes that may impact them. In addition, rate cases generally
8 provide a better opportunity for potential problems or inequities to be identified and
9 resolved.

10
11 **Q. In the current docket, has there been input by intervenors representing different**
12 **customer classes?**

13 **A.** Yes. There have been a number of interventions in the current docket, including the
14 Residential Utility Consumer Office ("RUCO"), Southwest Energy Efficiency Project
15 ("SWEEP") and Freeport-McMoRan Copper & Gold Inc./Arizonans for Electric Choice
16 and Competition ("Freeport-McMoRan/AECC"). RUCO represents the interests of
17 residential customers, Freeport-McMoRan is a large industrial concern, and AECC is an
18 association of industrial and large commercial class customers, while SWEEP is an energy
19 efficiency advocate. RUCO, Freeport-McMoRan/AECC and SWEEP have participated in
20 meetings and discussions, allowing residential, industrial and large commercial class
21 customers to have input into the current proceedings.

22
23 Western Resources Advocate, a non-profit environmental law policy organization also
24 intervened. More recently, EnerNoc applied for, and was granted, intervention. (EnerNoc
25 is an implementer for TEP's Commercial Direct Load Control Program.)
26

1 **Q. Who is representing the interests of small non-residential ratepayers in these current**
2 **proceedings?**

3 A. No intervenor appears to be representing the interests of small non-residential customers.
4 In its Direct Testimony, however, Staff expressed concern about the percentage-of-bill
5 recovery method for the non-residential sector, since this method would shift the burden to
6 small commercial customers who would end up with the highest effective per-kWh rate of
7 any customer class.

8
9 **APPROVAL OF PROGRAMS AND MEASURES**

10 **Q. In her Direct Testimony, on pages 6-9, Denise Smith discusses the current status of**
11 **TEP's DSM/EE programs, based on current funding levels. Does Staff wish to**
12 **respond to Ms. Smith's testimony regarding program changes and funding?**

13 A. Yes. Staff wishes to clarify and expand its testimony with respect to programs and
14 measures that should be available at different funding levels, and wishes, also, to address
15 the allocation of funding.

16
17 **Q. If the Commission approves Staff's Recommendation, Alternative 1, or Alternative 2,**
18 **should the program and measures recommended in Staff's Proposed Order docketed**
19 **on November 16, 2011, and amended on February 29, 2012, also be approved?**

20 A. Yes. In particular, Staff believes that the programs and measures recommended in Staff's
21 Proposed Order should be approved if the Commission approves Staff's Recommendation,
22 or either of Staff's proposed alternatives.

23
24 Approving the measures and programs recommended by Staff in its Proposed Order will
25 provide TEP with an enhanced range of options on which to focus its EE efforts, at
26 whatever spending level is approved.

ALLOCATION OF FUNDING

Q. How should the Company allocate whatever funding level is approved?

A. If the Commission approves Staff's Recommendation, that recommendation lists the funding levels for each measure/program. If the Commission approves some version of Staff's Alternative 1 or Alternative 2, the Commission may wish to specify how to allocate the spending level it approves, wholly or in part, or may leave the allocation process to TEP. If allocation is left to the discretion of TEP, TEP may elect to allocate its funding based on cost-effectiveness (as limited by the EE Rules) or take other factors into account, such as allocating among cost-effective programs and measures in a manner calculated to best serve all the major customer classes (for example, low-income, residential, small non-residential and large non-residential).¹

DSM/EE COST RECOVERY: PERCENTAGE-OF-BILL VERSUS PER-KWH RECOVERY

Q. Does Staff agree with Kevin C. Higgins (pages 6-7 of his direct testimony) that the percentage-of-bill recovery method is more equitable and more transparent than the per-kWh method of recovery?

A. No. The percentage-of-bill recovery method would result in industrial customers, who are the largest end-users, paying the lowest effective per-kWh rate to recover the costs of EE programs. No convincing rationale, or equitable alternative, has yet been presented to justify setting a lower effective per-kWh rate for recovery of EE costs for these large end-users.

¹ Staff notes that R14-2-2408 B. of the Rules states that "[a]n affected utility shall allocate DSM funds collected from residential customers and from non-residential customers proportionately to those customer classes to the extent practicable."

1 Staff does not believe that a percentage-of-bill calculation is more “transparent” than a
2 per-kWh charge, particularly given that the percentage would be applied against only
3 certain components of the bill (taxes and other governmental assessments would be
4 excluded). Staff believes that a per-kWh rate multiplied against the usage figure would be
5 more transparent than the percentage-of-bill recovery method. Staff also believes that the
6 inequity associated with percentage-of-bill recovery would outweigh ease of calculation
7 (although Staff does not agree that Mr. Higgins’ proposed methodology is easier) as a
8 consideration in designing the recovery mechanism.

9
10 **Q. Mr. Higgins has testified (pages 8-9) that it is important to consider the short term**
11 **rate impacts from funding even cost-effective EE programs. Does Staff concur?**

12 A. Yes. Staff believes that the financial impact of EE programs on ratepayers should always
13 be calculated and considered, even in cases where EE is cost-effective.

14
15 **Q. In his Direct Testimony (pages 8-9), Mr. Higgins expresses concern about the**
16 **manner in which EE costs are recovered. Please describe his concerns.**

17 A. Mr. Higgins states that “supply side costs are recovered from customers over the life of
18 the investment. . .smoothing out the rate impact over time, whereas efficiency investment
19 costs typically are recovered in full from customers by the utility upfront, i.e., expensed in
20 a single year.”

21
22 **Q, Does Staff believe that changes to the way in which EE costs are recovered should be**
23 **explored?**

24 A. Yes. As indicated herein, Staff is contemplating a rate case proposal to treat recovery for
25 investment in EE more like recovery for investment in other resources.

1 **Q. Please summarize Staff's recommendations.**

2 A. Staff's Rebuttal Testimony recommendations are summarized below.

3

4 ▪ Staff recommends that if the Commission approves Staff's Recommendation, or
5 one of Staff's two alternatives, and also elects to deal with lost fixed cost revenues
6 in the current docket, TEP should be authorized to defer unrecovered fixed costs as
7 described in Staff's Direct Testimony. The methodology used to defer
8 unrecovered fixed costs associated with Staff's Recommendation or either
9 alternative should be approved by Staff.

10

11 ▪ Staff recommends that changes to the DSM Surcharge mechanism and to the
12 Performance Incentive methodology should take place within TEP's recently filed
13 rate case.

14

15 ▪ Staff recommends that the programs and measures recommended in Staff's
16 Proposed Order should be approved if the Commission approves Staff's
17 Recommendation, or either of Staff's proposed alternatives.

18

19 **Q. Does this conclude your Rebuttal Testimony?**

20 A. Yes, it does.